Following The Tenth Commandment

Over the holiday season, the Hollywood biopic *Moses* raked it in at the box office. What accounts for the continuing interest in the life story of an Egyptian prince turned prophet? Aside from the drama of seven plagues and parting the Red Sea, there's that bit about the Commandments.

It's hard to overstate the importance of the Ten Commandments that Moses brought down from Mount Sinai. Among many religious persuasions, they're accepted as the foundation of Western morality. Although they contain fewer than 100 words, they have given rise to millions of pages of commentary and analysis. They still even figure in contemporary legal disputes, as in, should they be displayed in public places? We'd argue that the ancient texts also contain a valuable lesson for every kind of business. We're not referring to the prohibitions against lying and stealing, although it's probably a good idea to follow them. We refer instead to the tenth, and perhaps most ambiguous, of the commandments: the one about not coveting.

There's a scholarly debate about what "Thou shall not covet" actually means. Do you violate the commandment simply by envying someone's stuff, or do you have to actually try and take it to get in trouble? Given our problematic record in Sunday school, we'll leave that for others to sort out. Ambiguities aside, we'll venture that the secular corollary of the tenth commandment is the maxim, "the grass is always greener on the other side." How does Moses, coveting, and grass relate to business in general and the limited confines of the music industry specifically? In life and commerce, there's a strong tendency to want what we don't have. Chasing that elusive thing, whatever it is, often has adverse consequences.

We like to chronicle the industry's success stories in our columns, but unfortunate events necessitate that we cover the failures as well. A lot has changed since we began publishing in 1890, but the plot line behind most business crack-ups has remained remarkably constant. The stories go like this: an entrepreneur uncovers a market niche and builds a successful business to address it. Then, he either gets impatient with the rate of growth or comes to believe he's infallible. This is where that bit about coveting gets relevant. Emboldened, he starts to covet another market or business, and in pursuit of it, neglects the original business. The core operation starts to flounder, at which point what could have been a minor setback turns disastrous. Tears soon follow. Two brief case studies illustrate how this unhappy scenario plays out in real life.

Musician's Friend was a pioneer in mail order retail. Launched in a garage in 1983, the company enjoyed over a decade of heady growth and stellar profits selling gear through a slick catalog and later a website. In the mid-1990s management made the fateful decision to expand further by opening brick-and-mortar stores. Unfortunately, the managerial skills that built a successful catalog house weren't directly applicable to running stores, and the Musician's Friend outlets became a drag from day one. When the economy slowed and the company encountered an unexpected problem with credit card receivables, what could have been a manageable challenge turned into a cash flow crisis. Months later, on the brink, Musician's Friend was acquired by Guitar Center.

By the late '80s, Avid Technology had established Digidesign ProTools as the recording system of choice for top studios and engineers worldwide. The high-end pro market is extremely finite, and as growth slowed, management decided the consumer market—the millions of amateurs making and recording music at home—was where opportunity lay. In 2004, they shelled out a rich $174 million for M-Audio, the company that had pioneered cheap computer interfaces and keyboard controllers. The template for marketing to professional engineers didn't apply to selling $200 boxes at retail, and to insiders, it quickly became apparent that the ProTools/M-Audio marriage was a serious mismatch. Upper management belatedly reached the same conclusion eight years later when they unloaded the company for $17 million. Avid, which has had its own financial problems lately, probably wishes it had never made the acquisition and had its $174 million back.

We could go on almost indefinitely with similar tales of high-end manufacturers chasing entry-level product categories and vice-versa, retailers expanding into markets or regions they didn't fully understand, and a legion of outside investors who thought there was a fast buck to be made investing in the music industry, which as everyone knows is populated with "unsophisticated" management. Maybe all these misadventures were driven by naiveté—a failure to fully appreciate the difficulties involved in branching out. Self-interest no doubt played a role: who doesn't want to preside over a bigger, more successful enterprise? But there was a dose of "covetousness" too: a belief that something someone else had was inherently more valuable.

Although it's perhaps less exciting, tending to what you have is often more rewarding than chasing something else. We're still waiting to write the story about the enterprise that failed by fixing its sights on becoming as profitable as possible, focusing on a well-defined market.

Brian T. Majeski
Editor
brian@musictrades.com